



City of Chicago

TAX INCREMENT FINANCING POLICY GUIDELINES



City of Chicago
Department of Housing and Economic Development
121 N. LaSalle St. #1000
Chicago, IL 60602

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Policy guidelines for the Tax Increment Financing program are subject to change.

For more information, visit www.cityofchicago.org/tif.

INTRODUCTION

Tax Increment Financing (TIF) is the City of Chicago's most successful economic development tool, used to promote private investment across the city leading to jobs for city residents and better neighborhoods. Funds are also used to make improvements to Chicago's physical assets such as roads and infrastructure, clean polluted land and put vacant properties back to productive use, usually in conjunction with private development projects. TIF funds are leveraged to encourage private-sector investment and job growth, and in doing so, they ensure Chicago's future vitality and quality of life.

State statute governs the establishment and amendment of TIF districts. Funds are generated by growth in the Equalized Assessed Valuation (EAV) of properties within a designated district over a period of 23 years. When an area is declared a TIF district, the value of property in the area is set as a base EAV amount. As property values increase, all property tax growth generated by higher values can be used to fund redevelopment projects within the district. The increase, or increment, can be used to pay back bonds issued to pay upfront costs, or can be used on a pay-as-you-go basis for individual projects. At the conclusion of the 23-year period, the increase in value over the base amount is available to all taxing bodies in the city. Funding levels for specific projects are coordinated with area plans and goals.

This document summarizes general TIF investment policies and guidelines for private development projects as practiced by the Department of Housing and Economic Development, which is the administering Department for development projects seeking TIF and other forms of subsidy assistance from the City of Chicago. This summary is intended to help applicants in determining the appropriateness of a proposed project for TIF assistance while meeting the goals and objectives of the City and the plans for the designated TIF district. Also included here is information on long-term monitoring of TIF projects and TIF districts as well as policies governing TIF accountability.

TIF DISTRICTS

New District Designations

In order for the designation of a new TIF to be considered, the district must demonstrate how it advances the goals and objectives of the City's Economic Development and the City's Capital Plans. By aligning designations with the goals of the Economic Development Plan, the impact of TIF investments will be maximized by directing funding to projects that align with the City's economic development strategy. HED staff will certify that the proposed district accords with the plan and make the information publicly available.

District Performance

The TIF Administration Division will establish a process for an annual review of all existing designations to ensure the district continues to meet the goals and objectives of the Economic Development Plan. Using various metrics to evaluate performance, staff will have the ability to illustrate progress toward meeting district specific goals and identify potential candidates for termination and/or repeal. HED will also compile and publicize metrics on TIF programs including TIF Works, the Small Business Improvement Fund and the Neighborhood Improvement Fund to track their performance and ensure established district goals are being met.

TIF PROJECTS

Guidelines for Application Review

All projects proposed for TIF assistance need to meet objectives laid out in the redevelopment plans for each TIF area and particular community goals and objectives for the neighborhood in which the TIF is located. A project proposal for TIF funds should reference a primary reason for the funds, relating back to one of the objectives or goals in the TIF district plan. The primary reason should be the most compelling, taking into account the site, neighborhood goals and objectives. Projects supported by TIF must also meet basic underwriting guidelines that are generally accepted by municipalities for such projects. In addition, projects that exhibit Special Merit as noted below will be favorably considered, such as to be deemed to meet or exceed the general underwriting guidelines

The guidelines below fall generally into three categories of consideration that are evaluated when applications for TIF assistance are reviewed:

- Program Analysis
- Financial Analysis
- Special Merit Consideration

All three of these categories are taken into account collectively when evaluating the appropriateness of TIF assistance for a project. The Commissioner of the Department of Housing

and Economic Development retains the right to approve or reject any TIF application. Final approval is subject to City Council authorization.

Applications should be made to the Department's Bureau of Economic Development if a commercial or industrial project; or to the Department's Bureau of Housing, if a housing project.¹

Program Analysis

Beyond a typical program description seen in conventional projects, projects requesting TIF must further justify City assistance with additional benefits such as providing services to community residents, long-term project viability and community acceptance of the proposal.

In analyzing the proposed program for a TIF-funded project, the following elements are expected to be addressed:

1. Public benefit

All TIF-supported projects must evidence a public benefit. A project's public benefit may respond to a particular community's needs or to a City policy priority.

Examples of a public benefit effect include: creating or retaining jobs, improving market conditions by becoming a catalyst to future additional development, rehabilitating an historic structure or developing a grocery store in an underserved area, or furthering a major City policy goal. Some examples of City policy goals include the attraction/retention of corporate headquarters, the development of affordable housing, the enhancement of workforce job skills, and the provision of educational opportunities for residents.

The public benefit aspect of a project requires explicit explanation in the application, placing it in context with the particular area in which it will be located. Where possible, the amount of TIF assistance requested should be quantified with the proposed public benefit, such as the amount of TIF requested per new job generated.

The Department of Housing and Economic Development will not enter into any agreement that requires a developer, a vendor or other private party to make a public benefit payment in the form of a cash donation to a third party charity or private entity. This, however, does not mean that (a) private developers are barred or in any way dissuaded from voluntarily investing in communities or supporting third party charities as their corporate leadership determines appropriate, separate and apart from the City-assisted project, or (b) City delegate agencies and not-for-profit corporations are prohibited from entering into agreements with the Department of Housing and Economic Development, or providing services as contractors or subcontractors on a City-assisted project.

The City may also require parties who receive TIF assistance to fund improvements to infrastructure, public schools, public parks and other public amenities, to remediate land as part of such City-assisted developments, and to provide other public benefits where

1. All housing projects must have a significant affordable component.

such payments or in-kind contributions are made to the City, or to a City sister agency, and warranted by the impacts of the development or required under the Municipal Code and other applicable law.

2. *Meets goals established in individual TIF district plan*

When a TIF area is designated, the defined area has development goals and a plan that is aligned with the City's overall Economic Development Plan and guides the use of TIF funds locally. A project proposed for TIF assistance must demonstrate how it complies with the plan and furthers the defined goals of the TIF. In addition, the project must align with any neighborhood plans that may have been adopted for the particular site under consideration. These plans may be found on the City's website; the local alderman and community organizations are resources as well.

3. *TIF funds and eligible costs*

The amount of TIF funds available for a project depends on the current number of projects and commitments in a TIF district along with the projected increment. In order for the TIF request for a project to be considered, there must be adequate funds available to meet the need. This can be determined by meeting with HED TIF staff when starting the application process. This must be verified throughout the TIF review process, for as other projects move forward and are committed, the amount of TIF funding available will fluctuate.

TIF-eligible costs for a project must be itemized as part of the program statement and related to TIF-eligible costs as defined by State statute (See appendix).

- Please note that costs incurred by the applicant prior to City Council approval of a TIF district designation are not eligible for reimbursement.
- Costs incurred by the applicant before receiving City of Chicago Community Development Commission approval for a project may be eligible for reimbursement subject to review and agreement by the Department as to the relevance of those costs to the proposed project.

4. *Economic viability*

Public assistance for a project will be premised on the 'but for' of TIF assistance, in that the project can be shown as impractical without it (to the detriment of the community in which it is proposed). The program statement should demonstrate how the proposed project meets this requirement as well as the structural gap in the project financing, if applicable.

The return on public investment in a project is only generated by the project's successful completion and its continued economic viability beyond the construction phase. The program statement should address the short-term and long-term economic viability of the project.

Short-term: Applicants for TIF assistance need to provide evidence of the project's economic viability through pre-leasing agreements, market studies, commitment letters, etc. Evidence of or a strategy to obtain site control should also be submitted; acquisition costs must be supported by a current appraisal. No appraisal shall be more than 6 months old. The appraisal and proposed TIF funding shall be for and limited to the "as is" value.

Long-term: Applicant should demonstrate the ability to manage the project through a period longer than the construction and initial occupancy. It is expected that a term of ownership/operation will be identified and preference will be given to longer terms. The applicant should also recognize city monitoring requirements during this time and demonstrate the capacity to comply with such requirements. The monitoring requirements will vary according to project type, such as number of jobs created, number of affordable housing units, etc.

Depending on the project type and the proposed term of ownership/operation, the City may place restrictions on transferring ownership and may add 'clawback' provisions to the TIF agreement through which TIF assistance is recovered from the project sponsors by the city.

5. *Employment*

The principal focus of TIF as an economic development tool is to retain and create jobs for city residents. City policy requires that projects receiving city assistance provide a percentage of the total jobs during the construction phase of a project to City residents and businesses owned by women, minorities or people with disabilities. Applicants must demonstrate how the project will meet these City requirements; the specific requirements will be verified by meeting with HED TIF staff at the beginning of the application process.

In addition, TIF funding may be dependent on the future hiring of Chicago residents. For projects with a future jobs component, a hiring plan with proposed implementation and monitoring steps should be submitted with the application.

6. *Public approval*

Projects that receive public assistance must go through many public review forums, including the Community Development Commission, and ultimately the City Council. To this end, a project should demonstrate that it has the potential to win public approval at many levels throughout the process (i.e., local support, CDC, City Council). Inclusion of letters of support from local officials, community groups, etc. for the project may be submitted with the application to demonstrate public acceptance.

7. *Affordable Housing*

One of the City's major policy goals is to create and retain affordable housing throughout Chicago's neighborhoods to serve households earning less than the median income. This

goal should be addressed in any project where housing is a component.

The City recognizes that affordable housing projects are difficult to finance initially and may present long-term viability challenges due to the nature of the product; therefore projects with such a component may receive a larger proportion of public assistance to total project cost than other types of projects.

Financial Analysis

An HED financial analysis of the project will determine the need for project viability, TIF funds, and potential increment generation to determine an appropriate level of TIF assistance. Applicants should maximize private sector debt and equity before applying for TIF assistance. Financial information must be submitted in a form acceptable to the city.

1. Applicant's financial condition

HED will evaluate the overall financial condition of each applicant in terms of their ability to complete the proposed project. This includes the applicant's credit worthiness, its current financial condition, past credit history and loan payment history. Applicants are required to complete an Economic Disclosure Statement for review by the City.

2. Applicant's track record

The applicant must describe the ownership and management structure for a project, including the responsibilities of each principal. Background information on how the principals addressed similar responsibilities on prior projects should also be included. The capacity of the team will be evaluated with respect to the following:

- Experience with similar projects
- Financial capacity for completion of the project
- Performance on other projects receiving City assistance
- Performance on any other City contracts.

3. Financing structure

The applicant must demonstrate that conventional financing sources and other assistance (tax credits, etc.) are not adequate for the project. The following items must be outlined in the application:

- Sources and amounts of non-TIF resources
- Debt/equity sources
- Cost of project (e.g., construction cost per square foot)
- Development fee (if any)
- Other fees (e.g., architecture, legal)

If any of the above are outside the average range for the project type, this should be noted and an explanation given.

4. *Return on investment calculation for private investors*

The applicant's returns with and without TIF will be evaluated and compared with City guidelines for the type of project proposed. To that end, the project application should when applicable provide an analysis of these return calculations. The City will evaluate this information in comparison to market based parameters for various types of projects utilizing appropriate business development surveys such as the Korpacz Survey which provides quarterly data on Internal Rate of Return and Capitalization Rates for various project types organized by city.

Public participation through TIF and other city assistance for commercial/industrial projects is usually not more than 20% of total project costs, though the City may allow a higher percentage for special merit projects (see below), especially affordable housing.

In general, the City will try to limit TIF assistance to the amount of revenue generated by the project's Permanent Real Estate Tax Identification Numbers (PIN) (i.e., the increment amount generated by the project) except in the case of affordable housing.

The City will consider using TIF funds either as a loan or a grant to the project, depending on the specific circumstances of the project.

5. *Direct and indirect economic benefit analysis*

The applicant will provide an analysis of all estimated direct and indirect benefits of the project — property tax, sales tax, etc.

6. *Public investment per job created or retained*

In addition to the factors noted above, the amount of TIF and other public assistance available for a project is subject to being evaluated in terms of jobs created or retained. The City will review the cost of the City's total investment with a goal of limiting such investment not to exceed:

- \$10,000 per job created or retained if the project is outside the Central Business District; or
- \$5,000 per job created or retained within the Central Business District.

These limits will always be evaluated within the context of any Special Merit consideration which might warrant a higher City investment.

Special Merit Consideration

Additional consideration as to the level of subsidy provided by the City will be given to projects that address one or more of the following:

1. The project meets an economic development priority for the City
2. Vacant and abandoned sites
3. The provision of services otherwise unavailable in an area (e.g., grocery stores), or providing services in more than one community area
4. Responses to specific City requests (RFPs or negotiated sales)
5. Historic/landmark buildings or locations
6. Particularly significant strategic impact in a neighborhood (e.g., a high-visibility commercial corner)
7. Creation or retention of a significant number and/or quality of jobs
8. A not-for-profit that provides important public services that offset City or other government expenditures
9. Retention or attraction of a national or regional corporate headquarters or a significant operation center
10. Development of affordable housing.
11. Difficult site conditions requiring geotechnical work or environmental remediation.
12. Additional consideration for a developer or retail business that chooses to develop in multiple underserved communities simultaneously.
13. Consideration for exemplary sustainable business practices or innovative approaches to “green” building design and reduction of energy consumption.
14. Projects that may not provide a major direct impact, but will have a substantial impact by generating indirect jobs or increasing tax revenues.

TIF Long-Term Monitoring

Districts: The State of Illinois requires a status report on each TIF district no later than 10 years after it is established. The report details the amount of revenue generated, amount of expenditures, the amount of private and public investment in the district and the status of planned goals and objectives set out by the initial redevelopment plan.

The City monitors TIF districts monthly for incoming increment, balance of funds and project expenditures. In addition to the 10-year State report, the Department of Housing and Economic Development will prepare status reports on each TIF at years 5, 15 and 20 to better monitor and readjust project priorities within the TIF district.

Projects: Monitoring of TIF projects is based upon the Redevelopment Agreement (RDA) mutually approved by the City and the project developer. TIF payments will be scheduled according to milestones spelled out in the agreement. In order for TIF payments to be authorized, the project will have to demonstrate that the requirements and benefits set in the RDA are being met. Projects that receive TIF funding will be monitored by the DHED Compliance and Monitoring Division for the life of the RDA. TIF beneficiaries will be required to provide sworn affidavits regarding their performance at least annually or as otherwise outlined in the RDA.

As negotiated in individual RDA's, TIF recipients may be required to return some or all of the funds they have received if they do not meet project benchmarks.

Accountability and Transparency

The City is committed to an accountable and transparent process through which TIF districts are created and projects are subsequently approved.

City staff decisions regarding TIF investments in private sector projects must be approved by the Community Development Commission in open session and then by the City Council. There must be adequate public notice of the meetings. In most cases, a proposed TIF project will have also been screened at public meetings in the wards in which the project is located. The same is true for the creation of TIF districts, or amendments thereto.

TIF recipients will be required to provide certain types of information over the life of the project that will be posted on the City's website.

The City posts all information regarding TIF districts, including balance sheets, individual project redevelopment agreements, the porting of funds from other districts, reports and audits and all other available information on a dedicated TIF website. The website will be improved over time to be easier to access and in a searchable format.

The City will also report on specific programs funded by TIF on the website, such as the Small Business Improvement Fund (SBIF), the Neighborhood Improvement fund (NIP) and TIF/Works.

To ensure that TIF is meeting expectations and to provide public information about the status of TIF districts and projects, the City will regularly publish data measuring overall TIF performance. Established metrics will be gathered to demonstrate correlation with the City's Economic Development and Capital Budget Plans. The City will compile project-level and district-level dashboards to ensure projects are achieving their stated objectives and the objectives of the district, which will be posted on the City's website.

In addition, to performance metrics, reports including, but not limited to, TIF Designation Plans, 5-year Implementation Plans, 5-year Strategic Reviews, 10-year Status Reports and Close Out reports will be posted on the City's website in a searchable format.